



EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

July 11, 2007

The Honorable Colleen Hanabusa, President
and Members of the Senate
Twenty-Fourth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President and Members of the Senate:

Re: Senate Bill No. 1676 SD2 HD1 CD1

On July 10, 2007, Senate Bill No. 1676, entitled "A Bill for an Act Relating to the Hawaii Health Systems Corporation" became law without my signature, pursuant to Section 16 of Article III of the State Constitution.

The stated purpose of this bill is to require the Hawaii Health Systems Corporation (HHSC) to submit a feasibility report to the Legislature on establishing a domestic captive insurance company to provide medical malpractice and hospital professional and general liability coverage for the corporation, establishes a captive insurance board and appropriates \$20,000,000 to capitalize the formation of a captive entity.

Although my Administration supports creation of captive insurance companies to lessen health care costs, the bill is problematic because it sets up a governance system for the captive entity that runs contrary to established practices, is ill-timed, and will complicate implementation of new regional boards for HHSC.

The bill contains explicit language that precludes the HHSC management and the HHSC board from managing or overseeing the captive entity. This governance structure runs counter to established practices that ensure a parent company has a seat on its captive entity's board and oversees its captive insurance entity.

In light of the enactment of SB No. 1792 today, which will create five new regional boards within HHSC, it would be prudent to wait until the anticipated changes in HHSC occur and the regional board members are seated who could then provide input and expertise as to the creation of a captive entity that would best serve the needs of HHSC.

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Further, this bill proposes to use \$13,279,000 from the Hawaii Health Systems Corporation Special Fund that is necessary to operate the State's regional 13-facility hospital network and provide basic health care services to our residents.

For the foregoing reasons, I allowed Senate Bill No. 1676 to become law as Act 278, effective July 10, 2007, without my signature.

Sincerely,

A handwritten signature in black ink, appearing to read "L. Lingle", written in a cursive style.

LINDA LINGLE